



# Rising Food Prices: Causes and Responses

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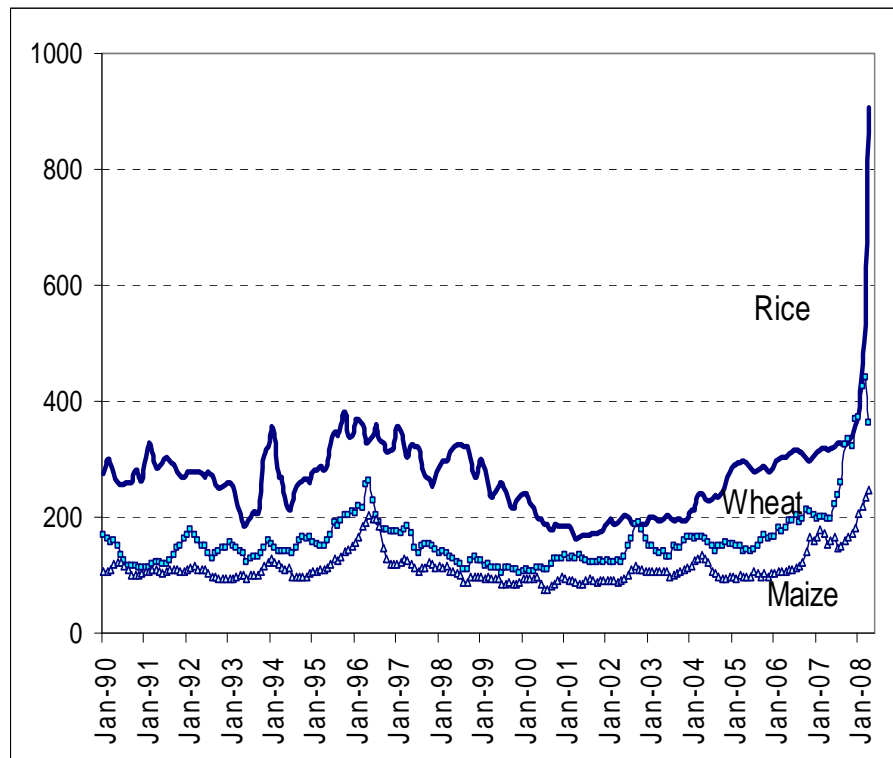
# Presentation Outline

- Why the High Prices?
- Consequences, Country Level and Household Level
- Policy Options
  - *Immediate actions to lower domestic food prices (1)*
  - *Improving household food security (2)*
  - *Facilitating longer-term food security and stimulating supply (3)*
- Responses to Date and Country Examples
- Role of the International Community



# Why the High Prices?

**Figure 1. Grain Prices**  
\$/Ton; January 1990 - April 2008



Source: World Bank data and staff estimates.

- World food prices by March 2008 were more than two and a half times higher than in 2002
- Price rises are a result of:
  - Rising **energy costs** & the **falling dollar**
  - The demand for **biofuels**
  - Increased consumer demand in high growth economies
  - **Export restrictions** by key exporters
  - Panic buying by large importers



# Why the High Prices?

- Supply Side:
  - Weather-related production shortfalls
    - Australia and Canada droughts
  - Stock levels at historically low levels
    - Magnifies effects of production shocks
  - Increasing fuel costs
    - Effects on prices of fertilizers, transport, etc.

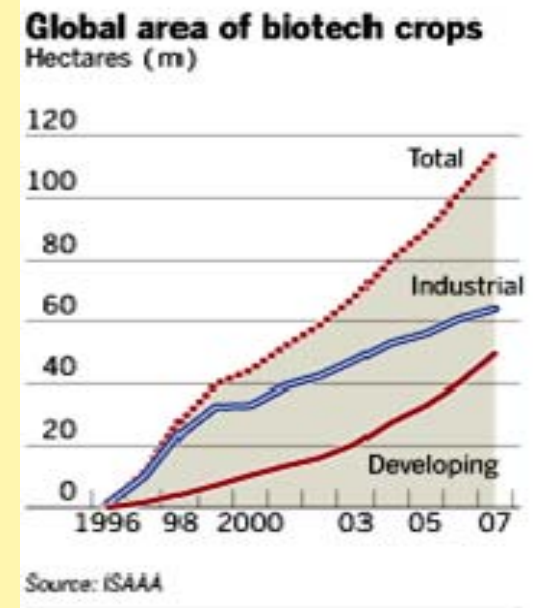


Figure 1. World cereal production and utilization



# Why the High Prices?

- Demand Side:
  - Biofuels and agricultural commodities
    - Fuel ethanol production tripled between 2000-2007
    - Biodiesel production up from 1 to 11 billion liters
    - Total subsidies in 2006 estimated at \$12 billion

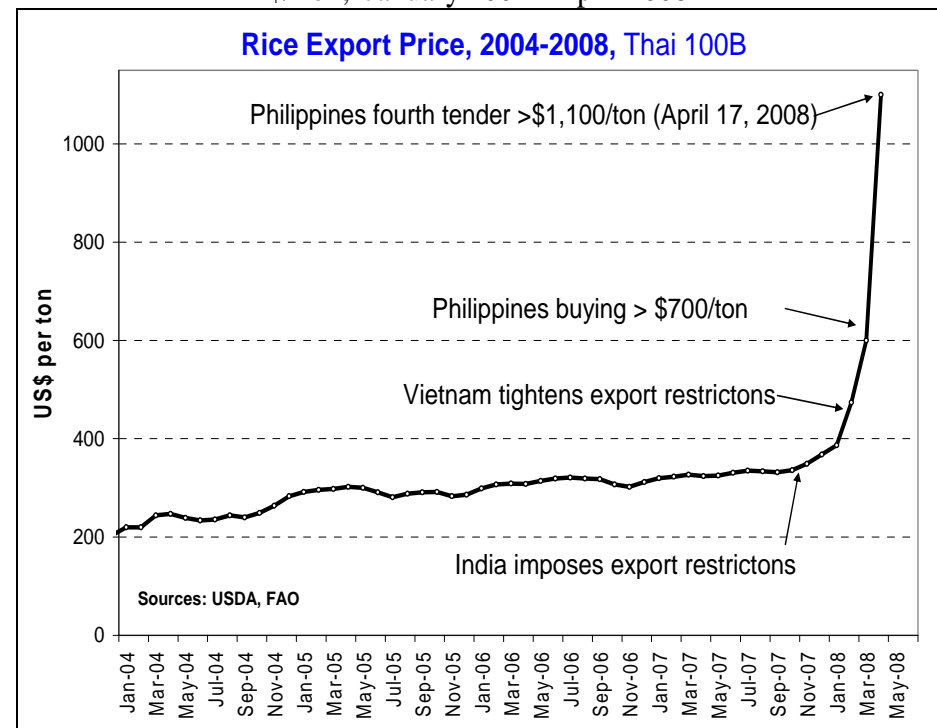




# Why the High Prices?

- Policy-Induced shocks:
  - Preemptive trade policies to ensure domestic food security have had a snowball effect
  - Wheat and rice exporting countries have banned or restricted exports:
    - price spikes → ‘panic buying’ and further price rises
  - Farmers, traders, exporters held stocks given price rises. Contributed to broken contracts and a virtual collapse of normal market mechanisms

**Figure 3. Rice Prices and Recent Policy Responses**  
\$/Ton; January 2004 - April 2008



Source: Brahmabhatt, M. & Christiaensen, L.  
*Rising Food Prices in East Asia: Challenges and Policy Options*, 2008



# Why the High Prices?

- Financial Markets Effects?
  - Much public debate on the effects of increasing availability of market instruments
  - Jury is still out:
    - IMF argues that high prices cause speculators to come in
    - OECD argues that institutional investors might be inflating future prices



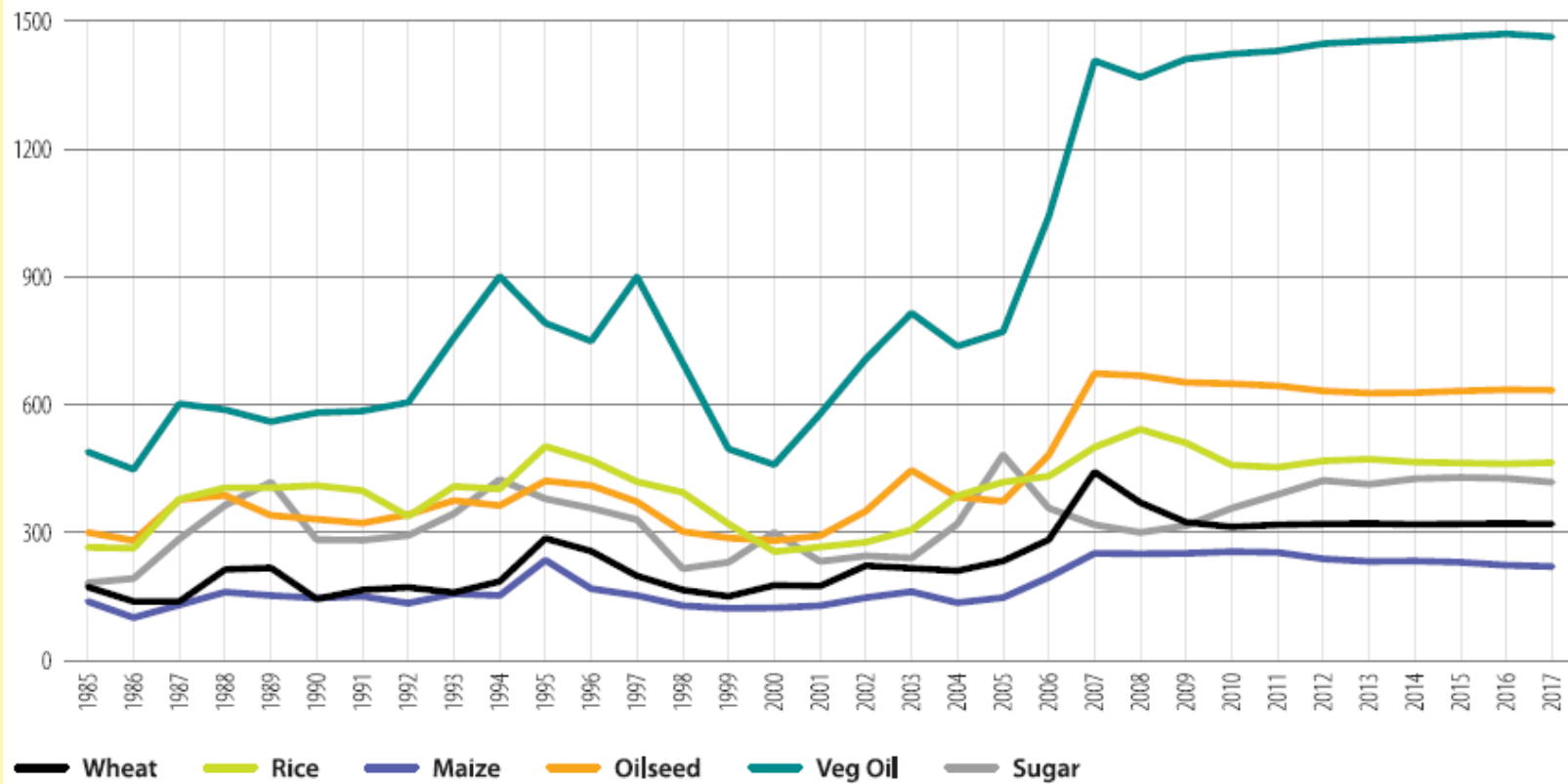


# Outlook: High Prices to Stay?

- Biofuel-related
  - Price of crude oil and subsidy policies
  - Possible development of second generation feedstocks
- Longer-term factors
  - Population and income growth, urbanization
  - Impact of climate change
  - Land and water constraints
  - Adoption of new technologies to increase yields



**Figure 6** Historical and projected real prices of selected food and feed commodities



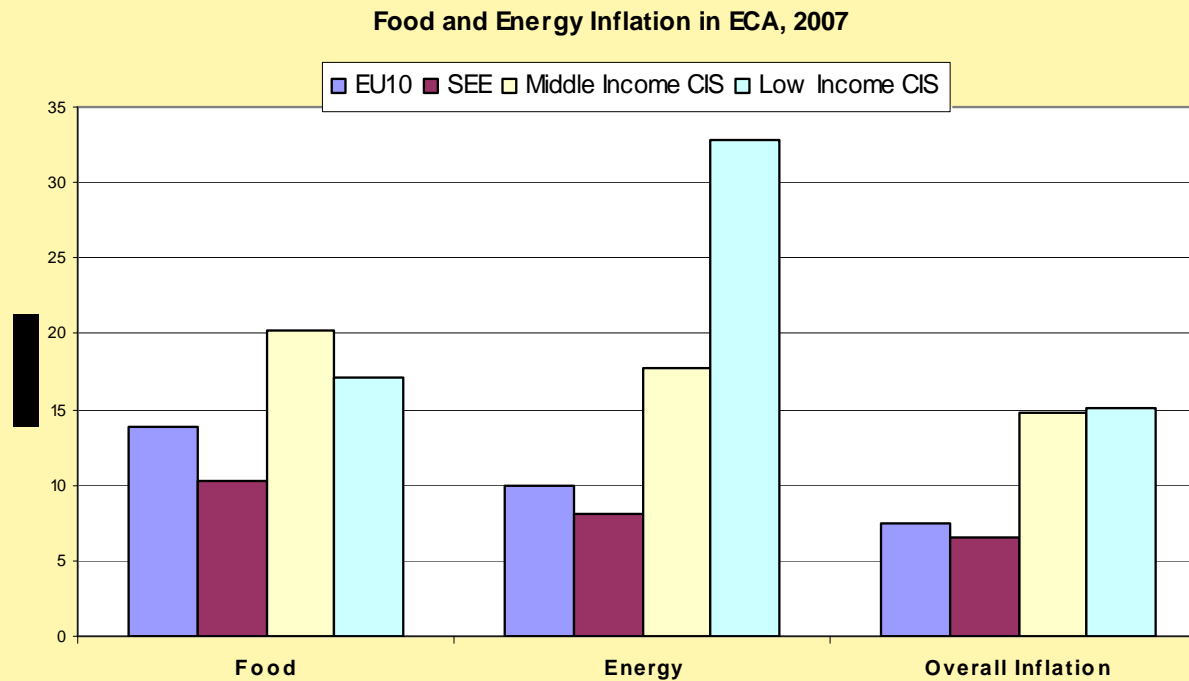


## Consequences: Country Level

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- Price rises are contributing to higher food inflation – e.g. 12% average in Eastern Europe compared to 6% a year back; 26% in Vietnam in 2008 (Q1), 14% Egypt
- Food import bills have soared in many countries, contributing to increasing current account deficits and financing problems
- Countries that have limited the inflationary impact by minimizing pass-through face increased fiscal costs and/or rationing

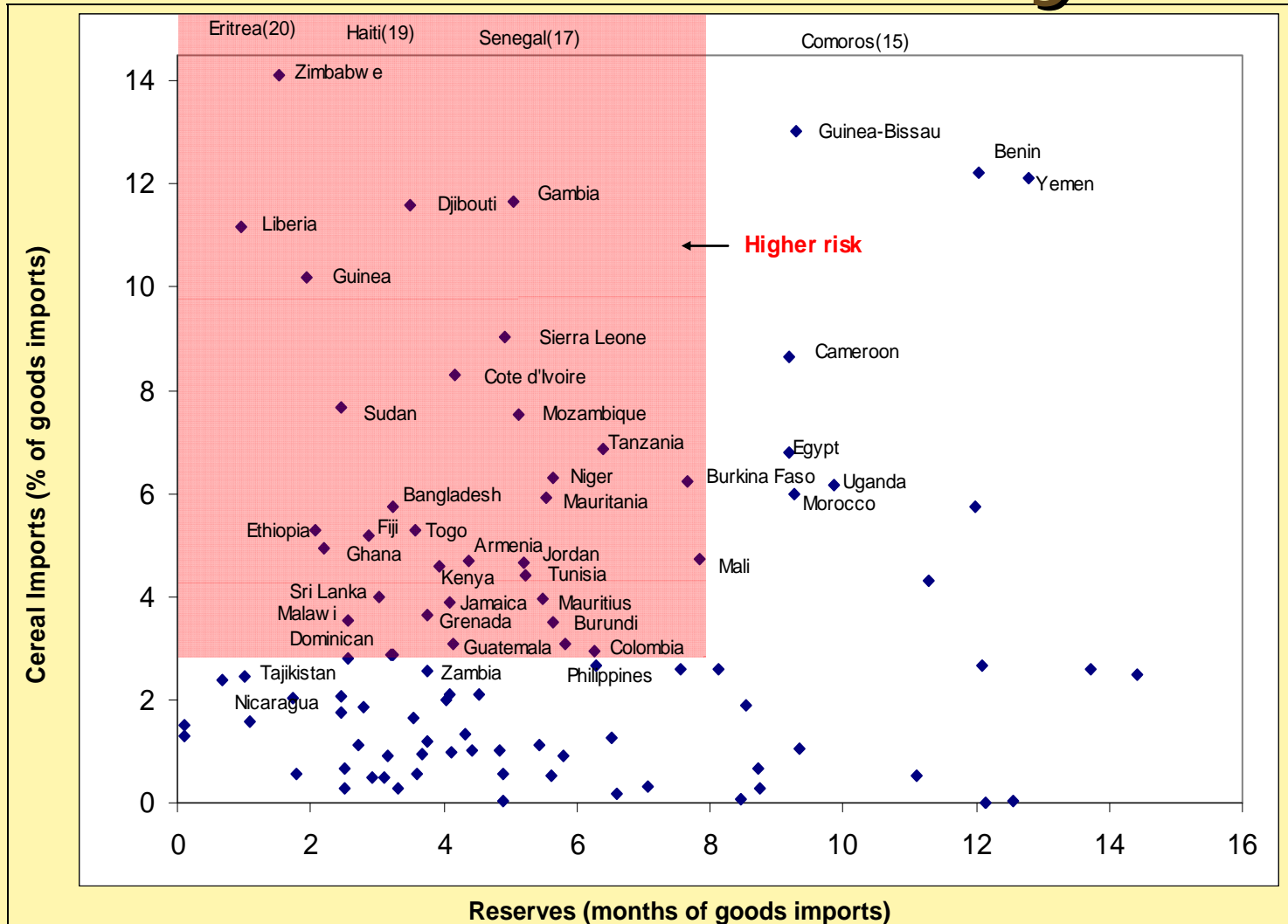
# Challenge 1: Managing Inflation



- ECA countries face the double shock of higher food and energy prices; these complicate macroeconomic management



# External Vulnerability

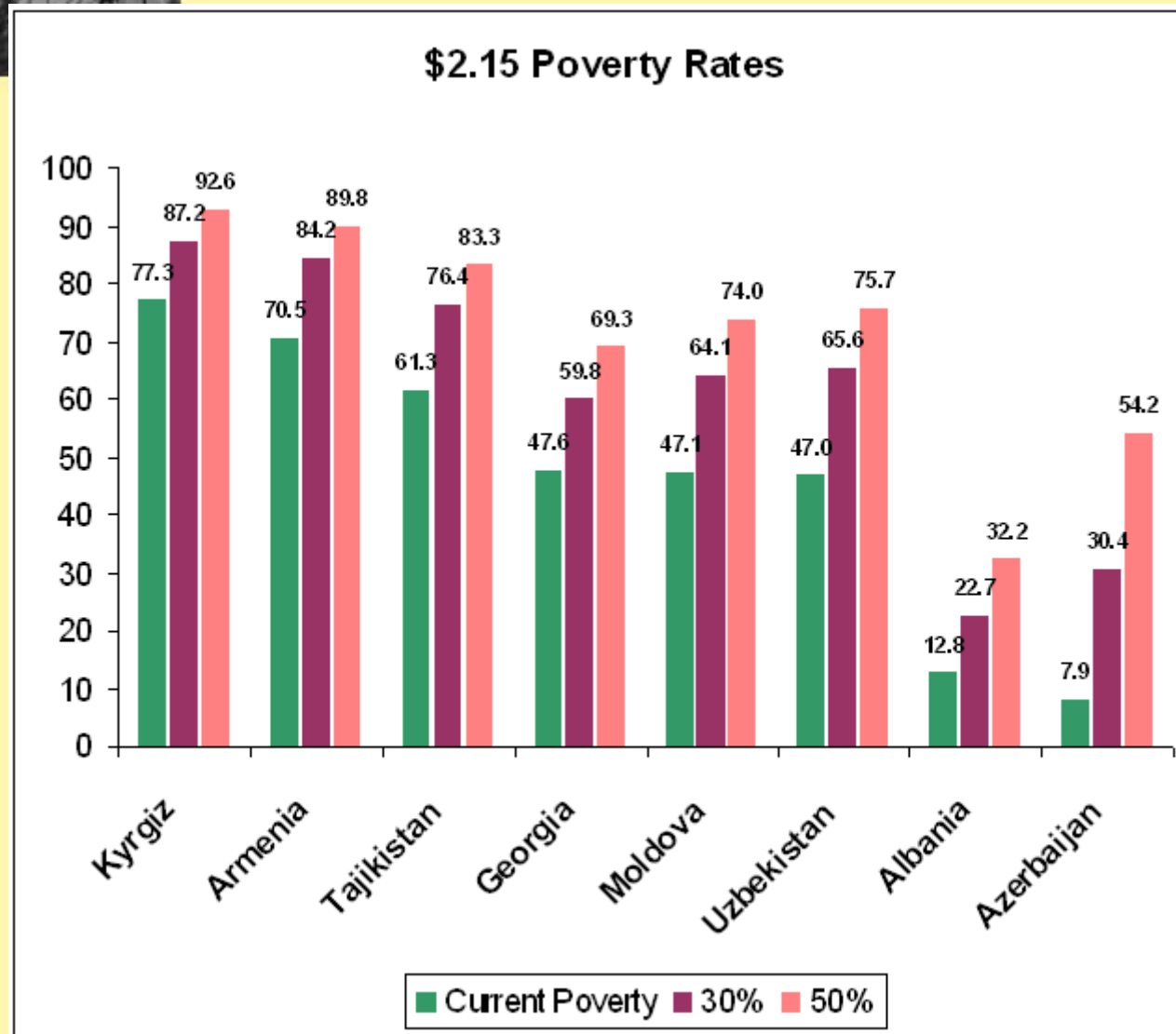




# Consequences: Household and Poverty Impact

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- Food accounts for 40-60 percent of household consumption in low income countries. Most poor are net buyers
- Simulations based upon household surveys suggest that the impact on poverty could be significant – a 5 percent relative increase in food prices could increase poverty rates by 2-3 percentage points
- Poverty impacts are likely to be higher in urban areas where most people are net consumers of food grains
- Poverty impacts are high because of large number of people just above the poverty line





# Policy Options (1)

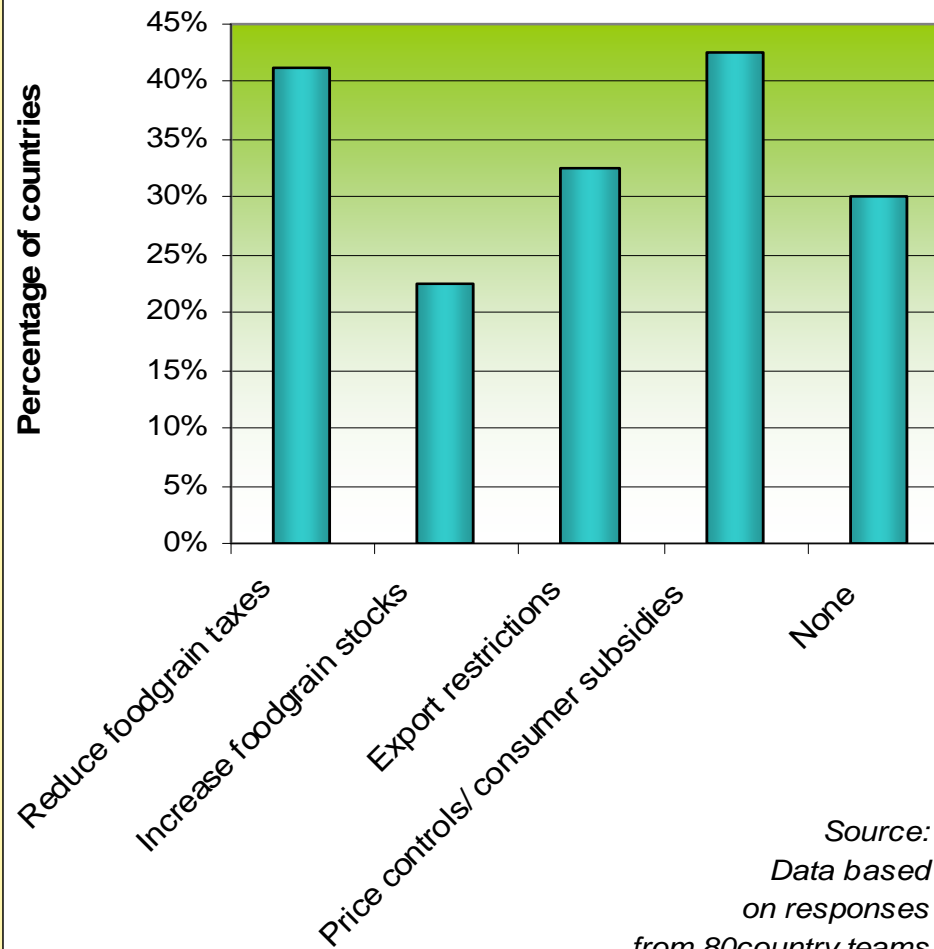
- *Immediate actions to lower domestic food prices*
  - **Preferable options include**
    - Reduction in grain import tariffs, VAT and other taxes
      - *Recommended for all countries with significant taxes and tariffs on food grains*
    - Selective grain / bread subsidies targeted to poor consumers e.g. Bangladesh, Egypt
      - *Second best option in countries where targeted safety net programs cannot be scaled up sufficiently during crises*
    - Strategic grain reserves (buffer stocks), e.g. India, Senegal
      - *Second best option used in low/middle income countries which have the capacity to manage food stocks and need to respond quickly to food availability issues (they insure against delays and price volatility in international markets)*
  - **Bad policy options include**
    - Price controls for “strategic” staples or on trader margins, e.g. several countries in Eastern Europe and Middle East
    - Grain export bans or taxes, e.g. India, Argentina, Croatia, Pakistan, Vietnam, Russia
      - *Negative externalities on others and disincentives for future production*





# Policy Responses: What is Happening?

**Food Price Policies  
(% of 80 countries)**





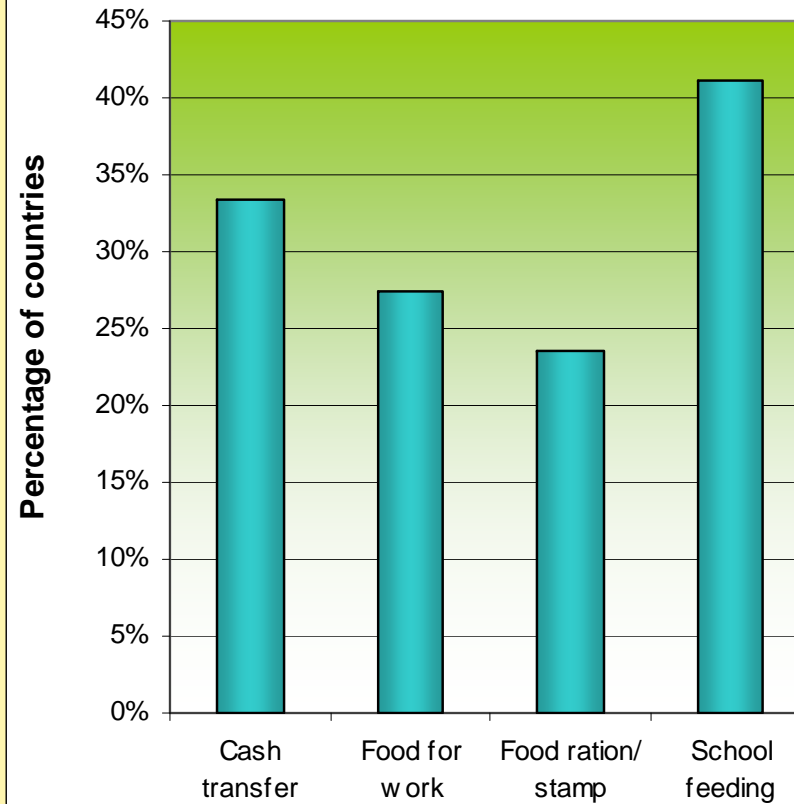
## Policy Options (2)

- *Improving household food security using safety nets*
  - Cash based transfers (means based and conditional), e.g. Indonesia, Brazil, Romania
    - *Best suited to countries with sufficient institutional capacity to appropriately target and disburse cash to large numbers of people (middle income and selected low income).*
  - Near cash (food stamps, vouchers) e.g. Sri Lanka, Tunisia
    - *Appropriate for countries with institutional capacity to target but not necessarily the mechanisms to disburse cash / countries transitioning from in-kind to cash transfers*
  - Public works programs, e.g. Mozambique, Cambodia
    - *Recommended for low income countries where targeting cash transfers via means or proxy means testing is difficult*
  - Feeding programs, e.g. Burkina Faso, Honduras, Morocco
    - *Recommended for countries in parallel with above option as the primary focus is on protecting the most vulnerable (children & mothers).*



# Distribution of Social Protection Programs

**Existing Safety Net Interventions  
(% of 51 countries)**



*Source: Data based on responses from 51 country teams*

# Policy Effectiveness Summary

	TARGETED TO VULNERABLE GROUPS	PRESERVES INCENTIVES (E.G. LABOR / PRODUCTION)	COSTS LIMITED WITHIN NATIONAL BORDERS	EASY TO IMPLEMENT /INTRODUCE	LIMITED MANAGEMENT /GOVERNANCE CONCERNS
<b>SAFETY NET PROGRAMS</b>					
Cash transfers	√	√	√		√
Food stamps / vouchers	√	√	√		
Public works	√		√	√	
Feeding / nutrition programs	√		√	√	
<b>POLICIES TO REDUCE DOMESTIC FOOD PRICES</b>					
Reducing import tariffs and VAT		√	√	√	√
Targeted consumer subsidies / rations	√	√	√		
Using buffer stocks to increase supply		√		√	
Generalized consumer subsidies			√	√	
Export bans / restrictions				√	
Producer price controls					



# Longer-term Food Security and Stimulating Supply

- Forward contracts for international grain procurement, e.g. China, S. Africa
  - *Appropriate for countries with data/capacity required to make decisions on forward contracts*
- Access to finance and market-based risk management instruments
  - Appropriate for all countries particularly those susceptible to large fluctuations in agricultural output
- Higher levels of public & private investment in agricultural support services (research, extension, market information) and reduction of post harvest losses
  - *Necessary investment in all regions*
- Investment in rural and trade related infrastructure
  - *Priority in countries with poor connectivity, power and high costs of doing business*



# Country Examples

- **Ethiopia**

- *increased wage rate of main cash transfer program by 1/3, lifted VAT on foodgrains and subsidized wheat distribution to urban poor*

- **Egypt**

- *food subsidies increased from 1.6% of GDP to 2.2% of GDP in FY08 and increase in civil servant wages*

- **Bangladesh**

- *removed tariffs on edible oils, set up targeted ration program for coarse rice*



## Country Examples, cont'd

- **Indonesia**
  - *expanded cash transfer program for the poor being developed*
- **Central and Eastern Europe**
  - *several countries have 'informal agreements' between Govt and producers to limit prices and producer profits e.g. Macedonia, Bosnia, Azerbaijan, Moldova, Kyrgyzstan*
  - *Romania – limited time cash increment to pensioners following price liberalization in 1990s*
- **Latin America, Caribbean**
  - *Reduction of tariffs, expanding CCTs (e.g. Jamaica) some export bans (e.g. Argentina)*



# Role of the International Community

- Revive functioning of international grain market
  - Discussions of export bans as part of the ‘global common good’
  - Releasing stocks on market in country’s where it’ll make little difference to their own food security (e.g. China/Japan)
  - Avoiding panic purchases – govt to govt agreements?
- Constructive discussion on trade-offs between energy, climate and food security
  - Ability to accelerate switch to 2<sup>nd</sup> generation bio-fuels





# Conclusions

1. Higher prices are here to stay, but inflationary trends should abate
2. ECA countries have responded through a variety of heterogeneous policies with mixed effects
3. Higher food prices pose three main challenges
  - managing inflation, protecting the poor and vulnerable, and providing food security
4. The food price crisis also creates an opportunity for reform:
  - improving incentives in agriculture, strengthening social safety nets, developing new risk mitigation instruments, and building effective poverty monitoring and evaluation systems